Committee Members Present: Larry Dill, Chair, and Clyde Nakaya answered present at Roll Call.

Absent: Hugh Strom

Staff Present: David Craddick, Kirk Saiki, Marites Yano, Dustin Moises, Kim Tamaoka, Eddie Doi, Regina Flores, Mary-jane Garasi

Guest: Deputy County Attorney Nick Courson

At 1:05 p.m., Chair Dill reconvened the Finance Committee meeting back to order.

OLD BUSINESS

Mr. Nakaya moved to Receive for the Record the revised Part 4 Fixing Rates for Water Service, Section VII Facilities Reserve Charge by the Deputy County Attorney Andrea Suzuki; Chair Dill seconded; with no objections.

At 1:06 p.m., Chair Dill called for a 5 minute recess to review the revisions.

At 1:15 p.m., Chair Dill reconvened the meeting.

DEPARTMENT OF WATER
County of Kaua‘i

“Water has no Substitute – Conserve It!”

Administrative rule material to be repealed is bracketed. New material is underscored. Deleted material is stricken through or [bracketed.] In printing this rule amendment, the brackets, bracketed material, underscoring, strikes need not be included.
PART 4 SECTION VII – FACILITIES RESERVE CHARGE

1. The water system facilities reserve charge shall be assessed against all new developments and subdivisions requiring supply of water from the County of Kauai, Department of Water, and existing developments requiring additional supply of water from the Department’s system. The facilities reserve charge must be paid before water services are made available to the new or existing development.

2. The water system facilities reserve charge will be raised or lowered each year according to the percentage increase or decrease in the Engineering News Record Construction Cost Index change over previous year index held as the base. This shall not increase more than four percent average per year determined from the effective date of this rule.

32. The water system facilities reserve charge shall be paid by all applicants for water service, including but not limited to the following:

   a. All irrigation services and/or meters.

   b. Additional buildings to be connected to existing services where additional demands or supplies are indicated. The charges shall be based on the meter sizes required if the buildings were metered separately.

   c. Additional units connected to existing services and meters under the categories of single family and multi-family residential units. The charges will be based on the established schedule of charges for the respective categories.

3. The Facilities Reserve Charge was adopted in accordance with a report prepared by an independent consultant retained by the Board to assess and study water facilities. The report calculated the costs associated with water development needs as laid out in the Board approved Department of Water facilities needs assessment study entitled "Water Plan 2020" as amended. The breakdown of those costs, per gallon, are laid out in Schedule 1:

The water system facilities reserve charge shall be determined from the following Schedule 1:

### Schedule 1

<table>
<thead>
<tr>
<th>SOURCE</th>
<th>$ per Fixture Unit</th>
<th>$ per gallon</th>
<th>$ per 5/8&quot; meter</th>
<th>MAXIMUM PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOURCE</td>
<td>$104.00</td>
<td>$4.15</td>
<td>$3,120</td>
<td>18%</td>
</tr>
<tr>
<td>STORAGE</td>
<td>$196.00</td>
<td>$7.86</td>
<td>$5,880</td>
<td>24%</td>
</tr>
<tr>
<td>TRANSMISSION</td>
<td>$272.00</td>
<td>$10.87</td>
<td>$8,160</td>
<td>48%</td>
</tr>
</tbody>
</table>
The water system facilities reserve charges shall apply to all applicants for water service as follows:

a. For each parcel created by subdivision, including the first lot created; and for every new single family residential dwelling unit not yet metered and a facilities reserve charge has not yet been paid, the charge shall be $4,600.00 the charge for a 5/8" meter.

b. For each unit or hotel room in a multi-family residential development and/or recent development, which applies to each unit or hotel room, the charge shall be $4,600.00 the charge for a 5/8" meter.

eb. For all other uses, the facilities reserve charge shall be determined by the size of the meter as follows shown in Schedule 2 and schedule 3. For meter sizes up to two inches, the facilities reserve charge shall be determined by the size of the meter as follows in Schedule 2:

<table>
<thead>
<tr>
<th>Meter Size</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/8&quot;</td>
<td>$4,600.00</td>
</tr>
<tr>
<td>1-1/2&quot;</td>
<td>$14,300.00</td>
</tr>
<tr>
<td>2&quot;</td>
<td>$26,400.00</td>
</tr>
<tr>
<td>3&quot;</td>
<td>$53,200.00</td>
</tr>
<tr>
<td>4&quot;</td>
<td>$90,700.00</td>
</tr>
<tr>
<td>6&quot;</td>
<td>$170,000.00</td>
</tr>
<tr>
<td>8&quot;</td>
<td>$283,400.00</td>
</tr>
</tbody>
</table>

For meter sizes up to two inches the water system development fee will increase according to the AWWA Standard C-700 latest edition for Cold Water Meters Displacement type, Bronze Main Case Recommended Maximum Rate for Continuous operations gpm flow rate ratio of larger sizes to the 5/8" meter which is as follows in Schedule 3:

<table>
<thead>
<tr>
<th>Schedule 2</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Meter Size</td>
<td>Ratio to 5/8' Meter</td>
</tr>
<tr>
<td>SIZE</td>
<td>Ratio to 5/8&quot;</td>
</tr>
<tr>
<td>5/8&quot;</td>
<td>$4,600.00</td>
</tr>
</tbody>
</table>
\begin{tabular}{|c|c|c|}
\hline
SIZE & Maximum Meter Cost & \\
\hline
3" & $5,720.100 & \\
4" & $9,884.160 & \\
6" & $22,239360 & \\
8" & $29,652,480 & \\
\hline
\end{tabular}

For Schedules 2 and 3 above, meter sizes shall be determined by the Department and not by the Developer or Applicant.

The facilities reserve charge for multi-family and/or resort development will be determined by the approved meter size or the number of units, whichever number is larger. Facilities reserve charges are periodically adjusted by the Department. These adjustments may increase or decrease existing facilities reserve charge amounts. Where adjustments to facilities reserve charges result in decreases of such charges, no refund will be made of the difference between the higher, pre-existing charges and the lower, adjusted charges.

For meter sizes beyond two inches the water-system-development-fee facilities reserve charge will be determined by the application of engineering principles and standards. For AWWA Standard C-702-latest edition for Cold-Water Meters- Compound Type Class II given as a reference type of meter the fee Facilities Reserve Charge shall not exceed the costs laid out in Schedule 3.

Schedule 3

4. FRC Offsets.

a. Definitions and construction of words. As used in this paragraph 4, the following definitions shall apply:
“Applicant” means any person, individual, corporation, partnership, business, organization, association, or other entity whatsoever that applies for water service from the Department.

“Consumer” has the meaning ascribed to it under Section 1 of Part 2 of the Department’s Rules and Regulations.

“FRC” means the facilities reserve charges described in section VII of Part 4 and Section III of Part 3 of the Department’s rules.

“Offset” means reduced or reduction.

“Subdivider” has the meaning ascribed to it under section 1 of Part 3 of the Department’s Rules and Regulations.

“Subdivision” has the meaning ascribed to it under section 1 of Part 3 of the Department’s Rules and Regulations.

“Water transmission main” or “main” means a main extension under Paragraph 2.d [2.a.(4)] of Section II of Part 2 of the Department’s Rules and Regulations.

As used in this Paragraph 4, the following rules of construction shall apply:

b. When an applicant, consumer, or subdivider is required to construct and dedicate water source or water storage facilities, or water transmission mains, to the Department, the following rules shall apply:

Subject to the provisions of this paragraph 4, the applicable FRC liability of such applicants, consumers, or subdividers shall be offset by up to 33% each where water source or water storage improvements are constructed, and up to 50% where water transmission mains are constructed in accordance with an amount not to exceed those percentages laid out in Schedule 4; provided that the total amount of all offsets that an applicant, consumer, or subdivider receives shall not exceed 100% of the applicant’s, consumer’s, or subdivider’s FRC liability, and provided further that the offset for any source or storage improvement or transmission main shall not exceed the actual cost of the source or storage improvement or transmission main.

<table>
<thead>
<tr>
<th>SOURCE</th>
<th>MAXIMUM OFFSET PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>18%</td>
</tr>
<tr>
<td>STORAGE</td>
<td>34%</td>
</tr>
</tbody>
</table>
DISCUSSION:
Manager Craddick explained the following changes:

- Section 2 was deleted but indexing was not deleted.
- Item No. 3 is the preamble to the Schedules.
- Deleted – The water system facilities reserve charge shall be determined from the following Schedule 1
- Deleted - * portion (the maximum percentage was taken off the schedule)
- Item 3 – Water system facility reserve charge was taken away.
- Deleted - Item 3b - Department would be losing money from the hotel rooms. There are a few 2” meter and 30 hotel rooms with some hotel rooms with 2” meters.
- 3c – (refer to revised changes in packet)
October 22, 2013

- 3d – (refer to revised changes in packet) – Indexing the fee could go up/down and a refund would be made if the fee went down because of the Engineering News Record Construction Cost.
- 3e – (refer to revised changes in packet)
- 4b – (refer to revised changes in packet) – If someone does it cheaper than the Department, they would not pay the difference from the Department’s fee and their cost. They would receive the 18% offset and would not have to give the Department anything back if they can do it cheaper.
- 5 (refer to revised changes in packet) – was put back in.
- 6 (refer to revised changes in packet)
- 7 Deleted

R.W. Beck’s suggestions were as follows:

- Schedule 1 – “max day” was inserted in the second column - $ per max day gallon.
  Chair Dill agreed to add the “max day” and inquired if the FRC were based on the water meter.

  Manager Craddick commented that the fee now includes all the cost to provide the facilities. (Per dollar charge x 750 avg. day for single family house x 1.5 = 750)

  Up to 2” meters are increased according to the meter ratio. All other sizes are based on what can go through the meter. The 5/8” is the actual cost for the Department’s standard. All sizes 3” and up are x 1.5 to get the max day x the per gallon number.

- Indexing – From a Board decision regarding the second sentence: This shall not increase or decrease for more than four percent (4%) average per year. The Finance Committee wanted to limit the increases to 4% average. If the percent was going to raise or lower each year according to the Engineer News Record, the increase/decrease should be limited to 4%.

  Manager Craddick’s recommendation was to keep from going too high but didn’t care about the lower. If the percent increased more than 5% in one year, this could be brought to the Board’s attention.

  Chair Dill requested the decrease be put back in to protect the Department.

  Indexing is published every month. When the meter goes in, indexing is applied. If the meter did not go in based on the Department’s in action, the rule would be relaxed. The Department follows SOP’s.

  Chair Dill commented that the FRC should be calculated at the time of application. The applicant could check for the current revised index rate.

  Deputy Manager Mr. Saiki indicated that the Department is not doing an annual increase at the end of the fiscal year. The rule did not specify this as indicated by Chair Dill.

  It was suggested by Manager Craddick to tie this in at the start of each fiscal year and to take December 31st and implement on July 1st (beginning of the fiscal year). The applicant would get a half year benefit but if the benefit went down, the applicant could complain. This should be clarified because the Engineering Record would not be available on July 1st for June 30th.
Suggested language could be forwarded to the Board: “The FRC would be raised or lowered at the start of each fiscal year according to the percent increase/decrease in the Engineering Record News Construction Cost Index December 31st of the previous year.”

If the rule takes effect February or March 2014 the first time for it to be indexed would be next July 2015. For the first year, it could be over a year at the current price. The purpose of indexing is not to stay static for 10 years with a huge leap. A Public Hearing could be done on what the Engineering News Record Construction Cost Index on the changes for the Board and public.

On 4b – Offsets, 2nd paragraph, Chair Dill commented at the last meeting, there was a concern that if a developer was able to put in source less than the Department’s calculated cost based on the FRC, he would be liable for the Department on the difference. (The sentence was deleted on the iPad version which Manager Craddick clarified.)

Phasing – There was no effort on the Rules committee to restrict if the fee was going to be lower to only things the DOW built and not being able to use someone else’s sources. This would cost more than to replace. Sources (not DOW’s) are available and could be used if they can be replaced. Sources could be given away before developers needed it. If there was no way to replace it, the DOW could be sued. The DOW would not recommend this.

Chair Dill referenced Kukui’ula who did infrastructure and provided it to the Department in exchange for service but they did not take advantage to the capacity in the system. According to their master plan, capacity would be needed in the future. He asked does the Department make arrangements for capacity?

Mr. Doi explained that the capacity was done by Kukui’ula with their calculations for the pump size needed that they built. The water is reserved for Kukui’ula in a schedule that is tracked.

Manager Craddick commented that if the Department was collecting money to replace it, the Department could drill and test the well if there was a source, based on the distance of the transmission line and extra storage capacity. This could be built before the last quarter million dollars and could be given to Kukui’ula. The DOW must make sure they are not giving water at a reduced price that belongs to someone else.

Chair Dill inquired if the developer would have to speak to Kukui’ula to put in all the facilities.

Manager Craddick indicated that no one would want to use their resources to provide resource to the competition. There would be no sense to develop more source, storage and transmission if it is on the DOW system as long as it can meet the obligations to the developer.

Chair Dill asked what if there are water restrictions in the area and people can’t get service.

Manager Craddick said they would be considered competing developers. If there is water and charged depreciation for it, the battle is to keep it close to the next well as much as possible. The exploratory well works need to continue because the well is unknown.
Chair Dill commented from a legal standpoint, the Department does not have a formal contract reserving the capacity. The Department treats it like an agreement. He is not comfortable giving away capacity on someone else’s system especially if the Department is not charging what the cost is to replace the system.

Manager Craddick mentioned that the Rules Committee did not limit giving away water that was not the Department’s to allow the Finance Committee to phase.

Chair Dill said the Department is not set up to do phasing.

Manager Craddick explained that Schedule 2 came from the rate consultant. The dollar cost is $22.88 x 750 (max day factor of 1.5; 500 is the standard gallon usage per home) = $17,160 for a 5/8” meter.

Manager Craddick clarified the maximum meter cost of $5.7M was determined for the 3” meter established by taking the max day flow on the meter (AWWA 702 Standard for meters).

If you take the flow by using it 24 hours a day = 1440 minutes x 1.5 x $22.88 = $5,720,100 which would be the maximum cost if the water was used continuously through the meter.

Deputy Manager Mr. Saiki noticed that this was not the number from SAIC.

Manager Craddick commented that the consultant brought this up first because there is a developer who is doing many homes with one meter. The per gallon charge is determined from all the DOW projects. Small meters would be impossible to do because 95% of the meter size of 5/8” is used by the Department.

SAIC Quality Control group is preparing a document for the Department to back up the numbers before the rules are implemented. Deputy Manager Mr. Saiki pointed out that the cost is based on the SAIC report. The report 8” meter costs approximately $1.5M but without the report saying SAIC changed their mind that the 8” meter now costs $29,652,480.

Manager Craddick mentioned that the fee cannot be based on the system’s averages. The Department uses Badger for the two (2) compound meters which follows the C702 standard.

Chair Dill requested that Manager Craddick to have SAIC issue a letter that the document is forth coming.

Manager Craddick read the email received from SAIC: “I have not gotten a review response from QAQC yet. Comments on the rule - I am not sure that the second part 2 on the 4% change piece is the intent that the change from one year to the next does not exceed 4% on average from the baseline. You might want to revise to this shall not increase or decrease to be consistent that it can be raised or lowered.” … (which the Board already did).

“Schedule 4” - The percentage column should read 18%, 35% (storage) and 47% (transmission) for the offsets which is a rounding issue.
“Comments on Schedule 1 – The dollars on column 1 … if it is going to be meaningful, it should probably be clarified that it is dollar per day, max day demand.”

“Comment from QAQC requested – that DOW confirm that the max day is the correct standard for the transmission line.”

Mr. Doi confirmed that the standard is max day plus fire flow for the transmission line (20 psi residual). The Department will respond back to SAIC with this information.

Deputy Manager Mr. Saiki calculated 450 GPM for a 3” meter would cost approximately $10M.

Chair Dill calculated $13.2M without a max day factor.

Manager Craddick commented the AWWA standard did not allow for 400 gallons and was not sure this meter does not say AWWA standard.

Mr. Doi questioned when the meter is sized, would it be safe maximum capacity? The Department uses the information by the vendor.

At 2:07 p.m., Chair Dill called for a recess.

At 2:10 p.m. Chair Dill reconvened the Finance Committee meeting.

Manager Craddick referred to the numbers for 175, 300, 675 and 900 and suspect those were for the small meters.

Deputy Manager Mr. Saiki mentioned that for the 3” meter, the numbers do not come out based on the table reflecting a shortage of $46,000. Based on R. W. Beck’s dollar per gallon it is $22.86 (table was incorrect) which was a rounding error that Manager Craddick corrected to $22.88.

In addition to tightening up Schedule 3, the Finance Committee would wait to hear back from the Department for new numbers from SAIC.

At 2:16 p.m., Chair Dill adjourned the Finance Committee meeting; with no objections.